

Exhibits B-1 and B-2

Exemptions and Deferrals of Tax Increment

California Redevelopment Law (Health and Safety Code Sections 33334.2 and 33334.6) allows agencies to deposit less than the minimum 20 percent of project area tax increment provided agencies can meet the requirements to take an exemption or deferral. Deferrals of tax increment constitute a debt that must be repaid to the Low-Mod Fund over the future whereas exemptions do not constitute a debt.

Exemptions - Section 33334.2(a) (2) (C)

Before an agency can exempt any amount of tax increment from deposit to the Low-Mod Fund, the jurisdiction (city or county) of the agency must have an adopted housing element that HCD has determined complies with applicable provisions of State housing element law. Once the jurisdiction's housing element is found in compliance, agencies can exempt some or the entire minimum 20 percent set-aside provided one of three allowable findings are made:

- No need exists in the community to increase, improve or preserve the supply of low and moderate-income housing.
- Less than the required minimum set-aside (20%) is sufficient to meet the community's need.
- The community is making a substantial effort to meet its affordable housing need that is equivalent in value to the required set-aside amount. To make this finding an agency must have incurred a specific contractual obligation before May 1991 that requires continuing the exemption.

Exhibit B-1 shows six agencies (Crescent City, Industry, Rosemead, Paramount, Brea, and Needles) exempted tax increment from seven (7) project areas totaling \$13,710,126, an increase of \$2 million compared to the \$11,705,663 exempted in the previous year by four (4) agencies (all four are among this year's six agencies). All agencies met the requirement of having an adopted housing element in compliance before taking an exemption. Although some agencies did not specify the authority used to claim an exemption, no active agencies claimed an exemption on the basis of having no need to improve and/or maintain the jurisdiction's supply of affordable housing.

Deferrals - Section 33334.6

Agencies can defer some or all of the 20 percent of tax increment required to be set-aside to the Low-Mod Fund, if deferrals are still needed to meet obligations of project areas approved before 1986. Any tax increment deferred from deposit to the Low-Mod Fund must be repaid. Agencies are required to adopt a plan to repay deferrals before the termination date of the project area.

Exhibit B-2 shows that 11 agencies deferred a total of \$4,924,568 that is substantially more than the \$3,006,873 deferred last year among 11 agencies. Eight of these agencies took deferrals in both years. Fifteen agencies made deferral repayments of \$2,707,456 whereas last year repayments were \$3,853,107. The balance of deferrals still owed to the Low-Mod Fund amounts to \$177,512,905.